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SUBJECT: CHINA'S LIMITED TIES TO COLOMBIA

REF: A. BEIJING 18953

[1](#)B. BOGOTA 9143

[1](#)C. STATE 138041

[1](#)1. Summary. Ties between China and Colombia are based on a modest economic relationship with minimal interaction on political issues. The level of Chinese investment in Colombia has been very small compared to other countries, but 2005 will show a slight increase from past levels. China views trade ties with Colombia opportunistically; some sectors such as telecommunications or textiles show promise for further investment, but PRC officials assert China has no desire to compete for a dominate market share with the United States. On the other hand, Colombian business owners, especially in the textile sector, are concerned about increases in cheap Chinese imports that may affect their ability to compete domestically. Similarly, while political ties have existed at low levels since diplomatic relations were established in 1980, President Uribe led a state visit to Beijing in April 2005 that generated a series of cooperative agreements, the majority of which were focused on increasing bilateral trade and investment. The PRC is supportive of the justice and peace process in Colombia but does not plan financial or programmatic support in adherence with its principle of non-interference. End Summary.

Mid-Level Trading Partner at Best

[1](#)2. China and Colombia share a modest but growing trading partnership. In 2004, China imported USD 132 million in Colombian products and exported USD 376.6 million in Chinese goods for an overall two-way trade of USD 509.5 million, ranking China as Colombia's 14th largest trading partner. Colombia traditionally runs a trade deficit with China; in 2004 the trade deficit was USD 243.7 million.

Colombian Trade with China, Venezuela, and the United States
(Millions of USD)

Colombian Exports to:

	2002	2003	2004
U.S.	5,159.7	5,797.6	6,504.4
Venezuela	1,123.3	694.3	1,603.5
China	29.8	82.2	132.9

Colombian Imports from:

	2002	2003	2004
U.S.	4,020.1	4,081.2	4,838.1
Venezuela	788.0	727.4	1,081.8
China	157.5	208.3	376.6

Source: Ministry of Commerce

[1](#)3. Exports from Colombia to China increased marginally from 2003 to 2004. The types of exports are diverse but only a few items are exported in significant quantities. In 2004, ferronickel was the leading export (57 percent of the total) while copper and aluminum scrap accounted for the next largest category. Fuel oils are a small percentage of exports to China, but there was a significant increase in this category in 2004, compared to previous years, according to the Ministry of Commerce.

Recent Growth in Chinese-supplied Imports

[1](#)4. Imports to Colombia from China have increased in recent years. From January-September 2005, China was the third-leading supplier of Colombian imports at 7.3 percent of in-bound trade behind Mexico (7.7) and the United States (29.1), displacing Venezuela. In 2004, leading Chinese exports to Colombia included crane equipment, video and sound recording equipment, telecommunications equipment, and footwear materials. Preliminary data from DANE for the Jan.-Sept. 2005 period show that the 2005 increase in Chinese-produced imports came mainly from increased trade for sound and recording equipment, vehicles and parts, and boilers/machinery equipment.

2004 Export/Import Data, Colombia and China (in USD millions)

Products Exported to China

	2004	Percentage
Ferronickel	76.45	57.5
Copper Scrap	24.31	18.3
Aluminum Scrap	8.0	6.0
Fuel oils	6.4	4.8
Leather goods	6.3	4.7
Other	11.5	8.7
Total	132.9	100.0

Products Imported from China

	2004	Percentage
Crane Equipment	21.3	5.6
Video and Sound Recording Equip.	17.0	4.5
Telecommunication Equip.	7.0	1.9
Broadcast Receivers	6.8	1.8
Footwear Materials	6.2	1.7
Other	318.4	84.5
Total	376.7	100.0

Source: Ministry of Commerce

Not Much Chinese Investment But Some Increases Are Likely

16. In recent years, Chinese investment in Colombia has remained relatively stable and limited, ranging from USD 1 million in 2001 to USD 1.2 million in 2004. China's cumulative investment stock of USD 13.7 million from 1994-2004 ranks it in 39th place behind Ecuador (14) or Costa Rica (23). The United States was the number one investor from 2001-2004.

Foreign Direct Investment in Colombia (in USD millions)

	2004	Percentage
U.S.	874.2	45.4
Venezuela	62.3	4.5
China	1.2	0.1

Source: Central Bank, Proexport

17. Chinese companies Huawei Technologies and ZTE started operations recently in Colombia and are interested in increasing investment as part of a general expansion strategy in Latin America. For example, in 2005, ZTE announced it was contracted by Colombian Emcali to build an Internet protocol network in the Cali region for USD 10 million. Chinese telecommunications companies believe they offer low-cost, high-quality infrastructure products and intend to compete heavily in the sector. Traditional U.S. suppliers such as Nortel and Lucent have communicated concerns to the Commercial Counselor that the Chinese strategy is to sell their products at heavily reduced prices to gain market share and lock out competition.

18. While some Chinese companies have limited investments in manufacturing, chemical, and oil exploration, larger Chinese oil companies have stated they have no plans to bid on the USD 800 million Cartagena refinery upgrade project and are not interested in making large investments in the hydrocarbon sector, according to officials at the Chinese embassy in Bogota.

2005 Influx of New Chinese Products

19. Colombian consumers are seeing an influx of Chinese products in the marketplace according to recent media reports. For example, Chinese cars made their debut in the Colombian market in 2005. Cinascar, a new local distributor catering to taxi services, will sell light trucks, pickups, and passenger vehicles made by Chinese manufacturers, SAIC GM Wuling, BYD Auto, and Changhe. During the first year of operations, Cinascar projects it will sell 3,000 vehicles.

10. Colombian producers are experiencing price pressure from cheap Chinese imports. In a recent public example, Colombian school notebook manufacturers expressed concern about a flood of cheap Chinese produced notebooks entering the market in 2005. The average price for a Colombian produced notebook is between 800 to 5,500 Colombian pesos but Chinese produced notebooks are selling for less than 200 pesos. In 2005, 3.5 million Chinese notebooks have been imported through Panama to Colombia compared to the normal Colombian national production of 120 million and Colombian producers are concerned the price differences will put them out of business in the long run.

Textile Agreement - An Attempt at Flood Control

11. Illegal Chinese textiles have been pouring into the Colombian market, and bilateral talks are underway to resolve the issue through an agreement that would set a maximum amount of Chinese textiles and apparel allowed into Colombia. As reported refTel B, Colombian textile producers have been forced to lower their prices in response to competition from

a growing contraband market, involving mostly Chinese products smuggled into the country from Panama. Legal imports have also grown rapidly from an approximate value of USD 5 million in 2000 to USD 35 million in 2004 according to the Ministry of Commerce. Colombian textile producers have noted a nearly 10 percent decrease in orders from January to June 2005. The GOC is implementing a variety of safeguards to protect specific textile and apparel product categories from Chinese imports but views negotiation of a comprehensive textile agreement as the preferred method to address the issue.

Beginnings of Expanded Political Relationship But Just A Start For Now

12. In early April 2005, President Uribe made a State Visit to China to mark the 25th anniversary of Colombia-China diplomatic relations. The focus of the trip, according to interviews Uribe granted before, during and after the visit, was to increase Chinese direct investment in Colombia, as well as to strengthen cultural and economic ties. Consistent with these goals, Uribe was accompanied by 140 Colombian business people, who pitched investment opportunities at roundtables held in Beijing and Shanghai, and 30 university rectors.

13. During the State Visit, representatives from both governments signed four agreements calling for further cooperation in the areas of information and telecommunication, film exhibition, economy and technology. According to the Chinese Embassy in Bogota, the agreement on economic cooperation was really more of a development grant from the PRC to Colombia. The agreement called for the PRC to donate USD 1 million to the GOC for use in agricultural development. Uribe and Hu Jintao signed a fifth agreement on phytosanitary measures. According to the Chinese Embassy, this is the only agreement that has real economic import. Without this agreement on the proper handling of contagious and parasitic diseases, there can be no plant or animal trade items between the two countries. Despite the signing of the phyto-sanitary agreement in April, there has been little increase in trade in plants and animals, according to the Chinese Embassy.

No Plans to Dominate Market Share in the U.S. Backyard

14. Officials from the PRC embassy in Bogota told emboffs that Chinese commercial strategy in Colombia, and Latin America in general, is opportunistic and depends on limited sectoral advantages. Echoing comments made recently by Chinese Ministry of Foreign Affairs officials in Beijing (reftel A), PRC embassy officials asserted that Chinese companies are not interested in competing with the United States for a total dominant market share in Colombia but will compete when market entry is easy and there is demand for services like in the telecom sector. From China,s perspective, the United States has the preeminent role as Colombia,s most important political ally and trading partner in Latin America. China views Latin America as an important alternative market but the region is on a third tier of importance in comparison with China's economic relationship with the European Union and its relationship with the United States and regional neighbors (India, Japan, North and South Korea, and Russia).

China Supports Justice and Peace Process But Will Not Contribute Aid

15. The Chinese Embassy stated the PRC supports the Justice and Peace process in Colombia in principle but will not provide monetary or other programmatic assistance based on its long standing policy of non-interference in the internal affairs of other countries. China recognizes that the United States and European Union have multiple interests in enhancing Colombia,s internal security including assisting Colombia in addressing illegal drug cultivation and production and ensuring protection of human rights. However, China does not share these interests to the same degree given the distance between China and Colombia. In general, Chinese diplomats maintain a low profile in Bogota.

Comment

16. Chinese interest in Colombia is based, primarily, on a modest trade relationship. Post sees further limited growth of Chinese imports to Colombia and specific investment interest focused in sectors such as telecommunications, consumer electronics, and vehicles. In any case, the current scale of bilateral trade and investment pales in comparison to the United States. We also expect to see more bilateral discussion and agreements that will foster the economic relationship.

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